

Palestine Development and Investment Limited (PADICO)

Unaudited Interim Condensed Consolidated Financial Statements

September 30, 2008



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Report on review of interim condensed consolidated financial statements
To the Board of Directors of Palestine Development and Investment Limited (PADICO)

We have reviewed the accompanying interim condensed consolidated financial statements of Palestine Development and Investment Limited (PADICO) as of September 30, 2008 which comprise of the interim consolidated balance sheet as of September 30, 2008 and the related interim consolidated income statements for the three-month and nine-month periods then ended, the interim consolidated statement of changes in equity and the interim consolidated cash flow statement for the nine-month period then ended and explanatory notes.

The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

Except for the effect of the matters described in the basis of qualification, we conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis of qualification

PADICO consolidated its financial statements with its subsidiaries for the nine-month period ended September 30, 2008, using financial statements that were not reviewed by the independent auditors of some subsidiaries. Total assets and revenues of those subsidiaries, whose financial statements were not reviewed, represent 19% and 30% of the total assets and revenues of PADICO's consolidated financial statements respectively.

As depicted in note (8), contrary to the provisions of the International Accounting Standard No. (28), during the nine-month period ended September 30, 2008, PADICO retroactively reclassified one of its available-for-sale investments to investment in an associate. Accordingly, the accounting policy relating to that investment was changed from the fair value to an investment using the equity method. As a result, the profit for the nine-month period ended September 30, 2008 increased by U.S. \$ 5,760,000 and total assets as of September 30, 2008 increased by U.S. \$ 1,293,000. In addition, the assets and equity as of December 31, 2007 decreased by U.S. \$ 4,467,000.

As depicted in note (8), comparative figures were not presented in the interim consolidated statement of income, interim consolidated statement of changes in equity and interim consolidated cash flow statement for the nine-month period ended September 30, 2007.

Conclusion

Based on our review, except for the effect of the matters described in the basis of qualification, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

A handwritten signature in blue ink that reads "Ernst + Young".

October 29, 2008

Palestine Development and Investment Limited (PADICO)

INTERIM CONSOLIDATED BALANCE SHEET

September 30, 2008

(U.S \$ 000's)

	September 30, 2008	December 31, 2007
	Unaudited	Audited
Notes	U.S. \$	U.S. \$
		Restated note (8)
Assets		
Non-Current Assets		
Property, plant and equipment	35,513	24,548
Goodwill	3,517	1,445
Investment properties	14,915	3,481
Projects in progress	4,216	3,149
Investment in associates	353,328	283,010
Available-for-sale financial assets	31,271	37,465
	<u>442,760</u>	<u>353,098</u>
Current Assets		
Inventories	3,944	3,636
Accounts receivable and other current assets	11,631	8,242
Financial assets held for trading	58,510	44,593
Loans to associates	20,678	20,140
Cash and cash equivalents	19,040	21,523
	<u>113,803</u>	<u>98,134</u>
Total Assets	<u><u>556,563</u></u>	<u><u>451,232</u></u>
Equity and Liabilities		
Equity attributable to equity holders of the parent		
Paid-in share capital	249,989	249,989
Share premium	16,932	16,932
Treasury shares	(2,119)	(994)
Statutory reserve	14,486	14,486
Voluntary reserve	1,594	1,594
Cumulative changes in fair value	(1,360)	(2,111)
Foreign currency translation	2,238	1,119
Retained earnings	76,405	45,838
	<u>358,165</u>	<u>326,853</u>
Minority interest	<u>38,838</u>	<u>19,247</u>
Total Equity	<u><u>397,003</u></u>	<u><u>346,100</u></u>
Non-Current Liabilities		
Long-term loans	103,646	59,733
Provision for employees' indemnity	1,297	1,150
	<u>104,943</u>	<u>60,883</u>
Current Liabilities		
Short-term loans	34,650	24,323
Accounts and notes payable	3,941	3,139
Other liabilities	16,026	16,787
	<u>54,617</u>	<u>44,249</u>
Total Liabilities	<u><u>159,560</u></u>	<u><u>105,132</u></u>
Total Equity and Liabilities	<u><u>556,563</u></u>	<u><u>451,232</u></u>

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

Palestine Development and Investment Limited (PADICO)

INTERIM CONSOLIDATED INCOME STATEMENT

For the three-month and nine-month period ended September 30, 2008
(U.S \$ 000's)

	For the three months ended September 30, 2008	For the nine months ended September 30, 2008
	(Unaudited)	
	U.S. \$	U.S. \$
Revenues		
Operating income	6,415	20,802
(Loss) income from financial assets portfolios	(2,412)	3,755
Changes in fair value of financial assets held for trading	(4,231)	(4,721)
Gain from sale of investments in associate	-	364
Share of associates' results of operation	11,907	36,531
Interest revenues	291	1,044
Other revenues	(229)	867
	<u>11,741</u>	<u>58,642</u>
Expenses		
Operating expenses	5,100	13,845
General and administrative expenses	3,136	7,280
Finance costs	1,059	4,667
Other provisions and expenses	111	754
	<u>9,406</u>	<u>26,546</u>
Profit before income tax	2,335	32,096
Income tax expense	(71)	(562)
Profit for the period	<u>2,264</u>	<u>31,534</u>
Attributable to:		
Equity holders of the parent	2,422	30,567
Minority interest	(158)	967
	<u>2,264</u>	<u>31,534</u>
Basic and diluted earnings per share	<u>0.010</u>	<u>0.122</u>

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

Palestine Development and Investment Limited (PADICO)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended September 30, 2008

(U.S. \$ 000's)

	Equity Attributable to Equity Holders of the Parent										
	Paid-in share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Cumulative changes in fair value	Foreign currency translation	Retained earnings	Total	Minority interest	Total equity
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance at January 1, 2008 - before adjustment	249,989	16,932	(994)	14,486	1,594	(2,111)	1,119	50,305	331,320	19,247	350,567
Adjustment note No. 8	-	-	-	-	-	-	-	(4,467)	(4,467)	-	(4,467)
Balance at January 1, 2008 - after adjustment	249,989	16,932	(994)	14,486	1,594	(2,111)	1,119	45,838	326,853	19,247	346,100
Net gains on available-for-sale investments	-	-	-	-	-	751	-	-	751	-	751
Foreign currency translation	-	-	-	-	-	-	1,119	-	1,119	-	1,119
Total income and expenses for the period recognized directly in equity	-	-	-	-	-	751	1,119	-	1,870	-	1,870
Profit for the period	-	-	-	-	-	-	-	30,567	30,567	967	31,534
Total income and expenses for the period	-	-	-	-	-	751	1,119	30,567	32,437	967	33,404
Treasury shares	-	-	(1,125)	-	-	-	-	-	(1,125)	-	(1,125)
Change in minority interest	-	-	-	-	-	-	-	-	-	18,624	18,624
Balance at September 30, 2008 (Unaudited)	<u>249,989</u>	<u>16,932</u>	<u>(2,119)</u>	<u>14,486</u>	<u>1,594</u>	<u>(1,360)</u>	<u>2,238</u>	<u>76,405</u>	<u>358,165</u>	<u>38,838</u>	<u>397,003</u>

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

INTRIM CONSOLIDATED CASH FLOW STATEMENT

For the nine-month period ended September 30, 2008

(U.S. \$ 000's)

	September 30, 2008 <u>Unaudited</u> U.S. \$
Operating Activities	
Profit before income tax	32,096
Adjustments for:	
Depreciation	1,418
Share of associates' results of operation	(36,531)
Income from financial assets portfolios	(3,755)
Changes in fair value of financial assets held for trading	4,721
Gain from sale of investments in an associate	(364)
Accrued interest income	(754)
Provision for severance pay and vacations	(162)
	<u>(3,331)</u>
Working capital adjustments:	
Inventories	(308)
Accounts receivable and other current assets	(236)
Accounts and notes payable	(696)
Other liabilities	(958)
Finance costs	4,667
Income tax paid	(108)
Net cash used in operating activities	<u>(970)</u>
Investing Activities	
Purchase of financial assets held for trading	(124,882)
Sale of financial assets held for trading	107,517
Purchase of available-for-sale financial assets	(345)
Sale of investments in an associate	1,126
Purchase of investments in associates and subsidiaries	(51,642)
Purchase of property, plant and equipment	(484)
Purchase of investment properties	(2,395)
Sale of property, plant and equipment	64
Projects in progress	(320)
Cash flow from the consolidation of a subsidiary	9,165
Dividends received	16,046
Net cash used in investing activities	<u>(46,150)</u>
Financing activities	
Cash dividends	(983)
Proceeds from long term loans	63,056
Repayment of long term loans	(11,008)
Finance cost paid	(3,917)
Treasury shares	(1,125)
Net cash flows from financing activities	<u>46,023</u>
Decrease in cash and cash equivalents	(1,097)
Foreign exchange difference	(1,386)
Cash and cash equivalents, beginning of period	<u>21,523</u>
Cash and cash equivalents, end of period	<u><u>19,040</u></u>

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008

1. Corporate Information

Palestine Development and Investment Limited (PADICO) was incorporated on October 14, 1993 under the Liberian Off Shore Business Corporation Act.

The main objectives of PADICO are to develop and encourage investment in various sectors including industrial, real estate, tourism and housing, and to provide technical and consultancy services through the establishment of companies, joint ventures and associations with other companies.

The interim condensed consolidated financial statements of PADICO for the period ended September 30, 2008 were authorized for issuance by the Board of Directors on October 29, 2008.

2. Basis of Preparation and Accounting Policies

The interim condensed consolidated financial statements for the nine-month period ended September 30, 2008 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements comprise the financial statements of PADICO and its subsidiaries as of September 30, 2008.

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with PADICO's annual financial statements as at December 31, 2007. The results for the nine-month period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2008.

Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of PADICO's annual financial statements for the year ended December 31, 2007.

3. Business Combination

In its extraordinary meeting held on July 27, 2008, the general assembly of Palestine Industrial Estate Development Company (PIEDCO) approved the reduction of its authorized capital from U.S. \$ 50,000,000 to U.S. \$ 37,500,000. PADICO gained control over PIEDCO's financial and operating policies, and accordingly PIEDCO's financial statements were consolidated with PADICO. PIEDCO contributed U.S. \$ 139,000 to PADICO's profit for the period from July 27, 2008 to September 30, 2008.

4. Statutory Reserve

As these financial statements represent interim condensed financial information, PADICO did not appropriate additional amounts to the statutory reserve.

5. Related Party Transactions

Related parties represent associates and subsidiaries companies, major shareholders, directors and key management personnel of PADICO, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by PADICO's Board of Directors.

Balances with related parties included in the interim consolidated balance sheet as of September 30, 2008 and December 31, 2007 are as follows:

	U.S. \$000's	
	September 30, 2008	December 31, 2007
Balance sheet items:		
Current accounts and term deposits at banks members in PADICO's Board of Directors	<u>12,841</u>	<u>9,102</u>
Due from associates	<u>2,171</u>	<u>2,898</u>
Loans to associates	<u>20,678</u>	<u>20,140</u>
Loans from banks members in PADICO's Board of Directors	<u>83,307</u>	<u>29,590</u>
Loan from an associate	<u>-</u>	<u>5,000</u>
Customers' investment contracts (associates)	<u>3,117</u>	<u>3,639</u>
Off balance sheet items:		
Letters of guarantee to associates	<u>16,845</u>	<u>16,845</u>
Funds managed on behalf of an associate company	<u>30,000</u>	<u>15,000</u>

Transactions with related parties included in the interim consolidated income statement for the nine-month period ending in September 30, 2008 are as follows:

	U.S. \$000's September 30, 2008
Revenues	
Interest income on loans to associates	<u>754</u>
Interest revenues on time deposits from banks members in PADICO's Board of Directors	<u>290</u>
Expenses	
Finance costs	<u>1,786</u>
Key management personnel compensations	
Salaries and wages	<u>578</u>
End of service benefits	<u>124</u>

6. Commitments and Contingent Liabilities

During July 2003, PADICO signed an agreement to purchase 350,000 shares owned by International Finance Corporation (IFC) in Palestine Tourism Investment Company's (PTIC) share capital in a five-year period from the date of the agreement. The shares will be purchased at the par value of U.S. \$ 494,000. The agreement is not yet executed.

PADICO signed letters of guarantee for U.S. \$ 16,845,000 due to local banks as collaterals against certain loans granted to sister and associate companies.

The unpaid balance of PADICO's investment in associates as of September 30, 2008 amounted to U.S. \$ 91,200,000.

7. Segment Reporting

PADICO's reporting format is business segments as PADICO's risks and rates of return are affected predominantly by differences in the products and services provided. Business segments are real estate, manufacturing, tourism, securities markets, in addition to the investment sector. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit.

Economic Sectors	U.S. \$000's					
	Total assets	Total liabilities	Total revenues	Total expenses	Depreciation and amortization	Net income (loss)
Investment	556,663	176,810	38,259	11,685	238	26,336
Real Estate	26,156	3,589	687	225	10	452
Manufacturing	44,765	6,320	15,940	13,744	1,022	1,174
Securities market	15,164	1,088	4,856	2,186	148	2,522
Eliminations	(86,185)	(28,247)	(1,100)	(2,150)	-	1,050
Consolidated	<u>556,563</u>	<u>159,560</u>	<u>58,642</u>	<u>25,690</u>	<u>1,418</u>	<u>31,534</u>

8. Comparative Figures

- During the nine-month period ended September 30, 2008 PADICO retroactively reclassified one of its investments from available-for-sale investment to investment in associate starting from January 1, 2007. Accordingly, the accounting policy relating to that investment was changed from the fair market value to the equity method. Following is a summary of the adjustment effect on 2007 financial statements:

	2007		
	Before adjustment	After adjustment	Change
	USD	USD	USD
Assets	455,699	451,232	(4,467)
Equity	350,567	346,100	(4,467)
Net Income	37,603	33,136	(4,467)

- These interim condensed consolidated financial statement are the first to be issued for the nine-month period ended September 30, as a result the comparative figures for the interim consolidated income statement, the interim consolidated statement of changes in equity and the interim consolidated cash flow statement for the nine-month period ended September 30, 2007 were not presented.

9. Subsequent events

As a result of the ongoing global credit crisis, global and regional financial markets were subject to significant declines. Subsequent to the date of the financial statements, the market value of PADICO's held for trading and available-for-sale investments as of October 29, 2008 declined by U.S. \$ 3,004,000 and U.S. \$ 3,315,000 respectively (that represent 5.1% and 10.6% of the total held for trading and available-for-sale investments, respectively).